

## Message Text

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E.O. 11652: N/A

TAGS: EALR, ECON, ETRD, BTIO, YO

SUBJECT: AMBASSADOR KENNEDY MEETINGS WITH  
COLANOVIC AND AMOLE

SUMMARY : NATIONAL BANK GOVERNOR COLANOVIC AND FEC  
MEMBER SMOLE TOLD FORMER TREASURY SECRETARY AND AMBASSADOR  
KENNEDY THAT US-YUGOSLAV ECONOMIC RELATIONS GOOD, BUT  
EXPRESSED CONCERN ABOUT EXPORT-IMPORT BANK CHANGES, SLOW  
GROWTH IN JOINT VENTURES, POSSIBLE SLOW-DOWN IN  
YUGOSLAV EXPORTS TO US, AND EXCLUSION OF YUGOSLAVIA FROM  
WASHINGTON MEAT CONFERENCE. KENNEDY WAS TOLD JOINT VENTURE  
LAW WILL BE IMPROVED BY NEXT YEAR, THAT CORN HARVEST THREATENED BY  
HEAVY RAINS, AND THAT "HIGHEST PRICE" PAYMENTS FOR OIL IMPORTS  
TO SOVIETS AND MIDDLE EAST ARE FORCING YUGOSLAVS TO MAKE EARLY  
ADDITIONAL PURCHASE FROM IMF OIL FACILITY. END SUMMARY.

1. IN OFFICE CALLS AND LUNCHEON HOSTED BY AMBASSADOR, FORMER  
TREASURY SECRETARY DAVID M. KENNEDY -- NOW ASSOCIATED WITH  
CONTINENTAL ILLINOIS BANK -- MET WITH NATIONAL BANK GOVENOR  
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COLANOVIC, FEC MEMBER SMOLE, AND ASSISTANT FINANCE

SECRETARY POPOVIC.

2. YUGOSLAV OFFICIALS STATED THAT ECONOMIC RELATIONS WITH U.S. GENERALLY PROGRESSING WELL, BUT EMPHASIZED CONCERN FOR FUTURE IN LIGHT OF FOUR DEVELOPMENTS.

3. EXEMPLARY RELATIONSHIP WITH EXPORT-IMPORT BANK MAY BE THREATENED, THEY FEAR, BY CONGRESSIONAL REDUCTION IN OVERALL COMMITMENT AUTHORITY, AND BY REQUIREMENT FOR NOTIFICATION TO CONGRESS OF ANYNPREDIT TO COMMUNIST COUNTRIES OF 50 MILLION DOLLARS OR MORE. COLANOVIC POINTED THAT NATIONAL BANK HAS ALWAYS PROVIDED UNIQUE SPECIAL GUARANTEE ON EXIM BANK CREDITS, IN LIGHT OF UNLIMITED NATURE OF EXIM FACILITIES FOR YUGOSLAVIA. WHEN JAPANESE EXIM BANK PRESIDENT SUMITA REQUESTED SIMILAR GUARANTEE IN VISIT LAST WEEK, HE WAS TURNED DOWN.

4. KENNEDY EXPRESSED VIEW THAT CONGRESSIONAL ACTION WOULD NOT INTERFERE WITH ORDERLY EXPANSION IN EXIM PROGRAM FOR YUGOSLAVIA. HE STATED HE WOULD BRIEF CHAIRMAN CASEY ABOUT YUGOSLAV CONCERNS, AND URGE HIM TO BE AS FLEXIBLE AS POSSIBLE ON CREDIT REQUESTS FOR YUGOSLAVIA.

5. NUMBER OF US-YUGOSLAV JOINT VENTURES IS EXPANDING GRADUALLY -- COLANOVIC AND SMOLE COMMENTED -- BUT MUCH MORE NEEDS TO BE DONE TO PROMOTE THESE. U.S. SHOULD SEND INVESTMENT MSSION OF THE KIND NOW FREQUENTLY TRAVELING TO EGYPT, COLANOVIC COMMENTED.

6. IN RESPONSE TO QUESTION ABOUT STATUS OF LONG-PROMISED CHANGE TO YUGOSLAV JOINT VENTURE LAW, COLANOVIC STATED THAT THESE WERE UNDER SERIOUS CONSIDERATION AND WOULD PROBABLY BE ADOPTED PRIOR TO JUNE 30, 1975, IN CONTEXT OF NUMEROUS ADAPTATIONS OF YUGOSLAV LAW TO 1974 CONSTITUTION. CHANGES WILL PROVIDE GREATER FLEXIBILITY FOR REPATRIATION OF EARNINGS AND FOR REINVSVAMENT, AND FACILITATE JOINT VENTURES IN "NEW AREAS" SUCH AS MINERAL EXPLOITATION.

7. YUGOSLAV EXPORTS TO U.S. HAVE INCREASED SIGNIFICANTLY TO 300 MILLION DOLLAR LEVEL THIS YEAR, BUT COLANOVIC AND SMOLE EXPRESSED CONCERN THAT SLOW-DOWN IN U.S. CONSUMER SPENDING WOULD HEAVILY AFFECT TRADITIONAL YUGOSLAV PRODUCTS, SUCH AS FURNITURE AND TEXTILES. KENNEDY RESPONDED THAT YUGOSLAV LIMITED OFFICIAL USE

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SALES EFFORTS IN U.S. WERE EXCESSIVELY CONCENTRATED ON NEW YORK AND FEW OTHER AREAS; HE ADVISED DIVERSIFYING TO CHICAGO, SOUTH-WEST AND MOUNTAIN STATES.

8. SMOLE -- NOW RESPONSIBLE IN CABINET FOR RELATIONS WITH GATT OECD, EEC -- STATED YUGOSLAVIA "VERY UNHAPPY" ABOUT NOT BEING INVITED TO WASHINGTON MEAT CONFERENCE (SEE BELGRADE 4938 AND 4172). HE REALIZED NUMBER OF PARTICIPANTS LIMITED, AND THAT U.S.

WAS NOT ORGANIZER, BUT NEVERTHELESS FELT STRONGLY THAT, AS A COUNTRY VERY SERIOUSLY AFFECTED BY EEC BAN AND AS A LEADER OF NON-ALIGNED, YUGOSLAVIA SHOULD HAVE PARTICIPATED.

9. COLANOVIC AND POPOVIC STATED OIL PRICES CONSTITUTED "VERY SEVERE DIFFICULTY" FOR YUGOSLAVIA. SOVIETS, JUST AS MIDDLE EASTERN COUNTRIES, "ARE CHARGING HIGHEST PRICES, AND WE FEEL RESULTS ON OUR SKIN." YUGOSLAVIA WILL SHORTLY APPLY FOR ANOTHER IMF CREDIT UNDER OIL FACILITY, IN AMOUNT OF 140 MILLION SDR'S AFTER 40 MILLION SDR DRAWING OF THIS SUMMER.

10 YUGOSLAVIA HOPED THAT RECORD GRAIN HARVESTS WOULD HELP MODERATE BALANCE OF PAYMENTS DEFICIT COLANOVIC SAID BYT HEAVY RAINFALL OF RECENT WEEKS AND FLOODS OVER PART OF COUNTRY MAKING IT INCREASINGLY QUESTIONABLE WHETHER CORN CAN BE FULLY HARVESTED.  
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